

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

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O 051201Z JAN 75

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC NIACT IMMEDIATE 6826

C O N F I D E N T I A L ATHENS 0076

EXDIS

E.O. 11652: GDS

TAGS: PFOR, MASS, ECON, EAID, GR

SUBJECT: GREEK GOVERNMENT REQUEST FOR ECONOMIC ASSISTANCE

1. I WAS ASKED TO MEET SATURDAY EVENING, JANUARY 4, BEFORE MY RETURN TO WASHINGTON TODAY, WITH ECONOMIC COORDINATION MINISTER PAPALIGOURAS, DEFENSE MINISTER AVEROFF AND FONOFF UNDER SECRETARY VARVITSIOTIS (BITSIOS WAS ILL) TO DISCUSS POSSIBLE US ECONOMIC ASSISTANCE TO GREECE IN 1975. THEY WERE UNDER INSTRUCTIONS, RECEIVED IN AN EARLIER MEETING SATURDAY FROM PRIME MINISTER CARAMANLIS, TO PRESENT ME WITH A MEMORANDUM TO OPEN DISCUSSIONS WITH US ON THIS SUBJECT. THE TEXT OF THE MEMORANDUM THEY HANDED TO ME LAST NIGHT IS AS FOLLOWS:

2. BEGIN TEXT. (1) UNSOUND ECONOMIC POLICIES PURSUED BY THE MILITARY REGIME HAVE CREATED SERIOUS PROBLEMS FOR THE GREEK ECONOMY.

WHEN THE DEMOCRATIC GOVERNMENT ASSUMED POWER TOWARDS THE END OF JULY 1974, THE ECONOMY WAS SHOWING CLERAR SIGNS OF RECESSION COUPLED WITH STRONG INFLATIONARY PRESSURES AND A GROWING BALANCE OF PAYMENTS DEFICIT. THE CYPRUS CRISIS AND THE ECONOMIC CONDITIONS PREVAILING A ROAD LED TO A FURTHER WORSENING OF THE ALREADY PRECARIOUS ECONOMIC SITUATION IN GREECE.

(2) THE DEFICIT ON CURRENT ACCOUNT IS LARGE IN SPITE OF A SLOWER INCREASE OF IMPORTS PARTICULARLY DURING THE SECOND HALF OF 1974. ACCORDING TO AVAILABLE ESTIMATES THE DEFICIT WILL INCREASE FURTHER DURING 1975. THE DEFICIT ON CURRENT
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ACCOUNT IN 1974 AMMOUNTS TO APPROXIMATELY \$1250 M. AND WILL

PROBABLY INCREASE TO REACH \$1400 M. IN 1975, EVEN IF THE VOLUME OF IMPORTS DOES NOT INCREASE. THESE DEFICITS ARE DUE TO THREE MAIN REASONS:

- A. THE RISE IN INTERNATIONAL PRICES (E.G. THE RISE IN OIL PRICES ALONE BURDENS THE BALANCE OF PAYMENTS BY \$400 M. PER ANNUM).
- B. THE ADVERSE EFFECTS FOR GREECE OF THE DETERIORATION OF THE INTERNATIONAL ECONOMIC SITUATION, WHICH ARE PARTICULARLY FELT IN THE FIELDS OF TOURIST INVISIBLE EARNINGS, REMITTANCES FROM GREEKS LIVING ABROAD AND, TO A LESSER DEGREE, EARNINGS FROM SHIPPING.
- C. THE NEED TO MAINTAIN THE DEFENSE CAPABILITY OF THE ARMED FORCES IN ORDER TO ENABLE THEM TO PERFORM THEIR DUTY IN THIS CRITICAL AREA OF THE MEDITERRANEAN. THE BURDEN CAUSED BY THIS NEED IS GETTING STEADILY HEAVIER AS THE COST OF MILITARY MATERIAL IS RAPIDLY MOUNTING.

(3) AVAILABLE DATA CONFIRMS THAT THE RECESSION CONTINUES AND THAT IT IS MORE SERIOUS IN GREECE THAN IN MOST O.E.C.D. COUNTRIES. THE GNP DECREASED BY ALMOST 2 PERCENT IN 1974 AND IT IS PROBABLE THAT THE ECONOMIC SLUMP WILL CONTINUE DURING THE COMING MONTHS UNLESS RADICAL MEASURES TO REACTIVATE THE ECONOMY ARE TAKEN.

(4) IN VIEW OF THE GRAVE DANGER OF MASS UNEMPLOYMENT AND SOCIAL PRESSURES, THE GREEK GOVERNMENT CANNOT BUT TAKE SUCH MEASURES. OTHERWISE, THE NEWLY RE-ESTABLISHED DEMOCRATIC ORDER WOULD BE SERIOUSLY UNDERMINED.

(5) IT IS OBVIOUS THAT, UNDER THESE CIRCUMSTANCES, THE GOVERNMENT HAS TO FACE THREE INTERCONNECTED PROBLEMS: FIRSTLY, THE CREATION OF PREREQUISITES ALLOWING FOR A GNP INCREASE OF AT LEAST 3 PCT PER ANNUM IN STABLE PRICES. SECONDLY, THE CHECKING OF INFLATION AND, THIRDLY, THE TACKLING OF THE BALANCE OF PAYMENTS PROBLEM. IT IS OBVIOUS THAT RESOLVING THE FIRST PROBLEM WOULD PRECLUDE THE SOLUTION OF THE TWO OTHERS, AND VICE VERSA, IF GREECE DOES NOT RECEIVE EXTRA ECONOMIC AND MILITARY AID.

6. THE MOST URGENT PROBLEM FACING THE GREEK GOVERNMENT IS FINANCING THE DEFICIT OF THE BALANCE OF PAYMENTS. TAKING INTO CONSIDERATION THE EXPECTED NET INFLOW OF PRIVATE CAPITAL IN 1975, A DEFICIT OF THE ORDER OF \$1000 M. REMAINS TO BE COVERED. IT IS TO BE NOTED THAT THE SERVICING OF DEBTS ALREADY CONTRACTED FOR COVERING ARMED FORCES NEEDS AMOUNTS TO APPROXIMATELY \$500 M. CONFIDENTIAL

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FOR 1975.

(7) UNDER INTERNATIONAL AND GREEK CONDITIONS PREVAILING TODAY, IT IS OBVIOUS THAT ONLY A SMALL FRACTION OF THE \$1000 M. DEFICIT COULD BE PROVIDED BY PRIVATE SOURCES. THE LARGEST PART WILL HAVE TO BE COVERED, IN THE FORM OF AID OR LOANS, FROM INTERNATIONAL, GOVERNMENTAL OR SEMI-GOVERNMENTAL SOURCES, UNDER FAVORABLE TERMS, REGARDING INTEREST RATE, PERIOD OF GRACE AND MATURITY.

(8) THE GREEK GOVERNMENT FEELS THAT THE AMERICAN GOVERNMENT COULD ASSIST IN THE FOLLOWING WAYS:

A. THEY COULD ASSUME AN IMPORTANT PART OF MAINTAINING THE DEFENSE CAPABILITY OF GREECE SO AS TO ENABLE HER TO FACE HER RESPONSIBILITIES IN THE MEDITERRANEAN AREA. REFERENCE IS MADE AT THIS POINT TO THE CONVERSATIONS THE GREEK MINISTER OF DEFENSE AND HIS STAFF HAD WITH AMBASSADOR KUBISCH AND GENERAL BURKE AND TO THE MEMORANDA HANDED TO THEM.

B. THEY COULD GRANT ECONOMIC AID UNDER A FORM TO BE AGREED UPON AS WELL AS SPECIAL ASSISTANCE BY FINANCING CAPITAL EQUIPMENT, RAW MATERIALS AND AGRICULTURAL PRODUCTS THROUGH THE EXPORT - IMPORT BANK AND ANY OTHER APPROPRIATE AGENCIES. IT IS TO BE NOTED THAT DURING THE MILITARY REGIME, GREECE RECEIVED CREDITS THROUGH THE COMMODITY CREDIT CORPORATION.

C. THEY COULD EXERT ALL THEIR INFLUENCE ON VARIOUS INTERNATIONAL ORGANIZATIONS, AS, FOR EXAMPLE, THE INTERNATIONAL BANK AND THE I.M.F. WITH A VIEW TO GRANTING SUBSTANTIAL LOANS TO GREECE ON FAVORABLE TERMS. MORE SPECIFICALLY, OIL FACILITIES COULD BE GRANTED TO GREECE BY THE I.M.F. ON A SUBSTANTIALLY LARGER SCALE THAN IN 1974. ATHENS, JANUARY 4, 1975. END TEXT.

3. I TOLD THEM THAT WE WOULD OF COURSE GIVE THE MEMORANDUM THE CLOSEST CONSIDERATION AND THAT I KNEW THAT WE WOULD WANT TO TRY AND CONSIDER AS SYMPATHETICALLY AND FAVORABLY AS POSSIBLE THEIR REQUEST FOR ASSISTANCE. I SAID I DIDN'T KNOW WHAT MIGHT BE POSSIBLE BUT GIVEN OUR EXISTING WORLDWIDE COMMITMENTS, OUR DOMESTIC AND THE GLOBAL ECONOMIC SITUATION, AND GREECE'S OWN ECONOMIC POSITION AND PROSPECTS COMPARED WITH OTHER OIL-IMPORTING COUNTRIES AND LDC'S, THE POSSIBILITIES FOR ANY IMMEDIATE LARGE-SCALE ASSISTANCE FROM THE US DID NOT SEEM TO ME
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TO BE BRIGHT. HOWEVER, I SAID I WOULD LOOK INTO THIS WHEN I ARRIVED IN WASHINGTON ON MONDAY AND SEE THAT WE WERE IN A POSITION TO HAVE DETAILED DISCUSSIONS WITH THEM ON THIS SUBJECT AS SOON AS POSSIBLE AFTER MY RETURN TO ATHENS.

4. I WENT ON TO SAY THAT I HAD BEEN GIVEN TO UNDERSTAND, REPORTEDLY FROM I.M. F. SOURCES, THAT GREECE'S BALANCE-OF-PAYMENTS SITUATION WAS IMPROVING. PAPALIGOURAS SAID NO, THAT THIS WAS NOT CORRECT; THE SITUATION WAS WORSENING, AND THAT HE HAD INVITED AN I.M.F. MISSION TO COME TO GREECE TO DISCUSS THIS MATTER. HE SAID THEY WOULD BE ARRIVING WITHIN A WEEK.

5. I SAID THAT AS THEY KNEW THE HIGHEST OFFICIALS OF THE USG WANTED TO SUPPORT AND HELP THE CARAMANLIS GOVERNMENT, IN EVERY APPROPRIATE WAY, TO BE SUCCESSFUL. THEREFORE, I SAID, THEY

COULD DEPEND ON US TO CONSIDER THEIR REQUEST PROMPTLY AND AS
FAVORABLY AS CIRCUMSTANCES PRMITTED.

6. I WILL DISCUSS THIS SUBJECT FURTHER - INCLUDING
PARTICULARLY ITS SIGNIFICANCE AND IMPLICATIONS - WHEN I
ARRIVE IN WASHINGTON. IN THE MEANTIME, WE SHOULD KEEP THIS
APPROACH BY THE CARAMANLIS GOVERNMENT ON A CLOSE-HOLD,
NEED-TO-KNOW BASIS.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, TEXT, ECONOMIC CONDITIONS, MILITARY ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 05 JAN 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ATHENS00076
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750004-0777
From: ATHENS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750177/aaaacpwx.tel
Line Count: 178
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 02 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 JUN 2003 by ElyME>; APPROVED <16 SEP 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GREEK GOVERNMENT REQUEST FOR ECONOMIC ASSISTANCE
TAGS: PFOR, MASS, ECON, EAID, GR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006